After having covered the basics of finance (discounting, capitalisation, value and interest rates), it is time to delve deeper into another fundamental concept: risk. Risk is the uncertainty over future asset values and future returns. For better or for worse, without risk, finance would be quite boring!

Risk means uncertainty today over the cash flows and value of an asset tomorrow. Of course, it is possible to review all the factors that could have a negative or positive impact on an asset, quantify each one and measure the total impact on the asset’s value. In reality, it is infinitely more practical to boil all the risks down to a single figure.